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REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
EXECUTIVE SECRETARY

May 6, 1999

HOWELL G. CLEMENTS, P.C.
PALMER OFFICE
(931) 779-5333

VIA OVERNIGHT DELIVERY

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

In re: Chattanooga Gas Company - ACA Audit for Year Ended 6/30/98
Docket No. 98-00776

Dear Mr. Waddell:

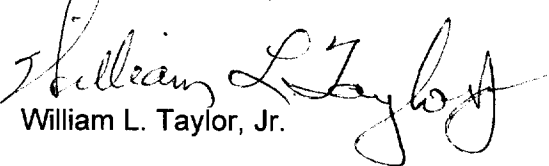
On behalf of Chattanooga Gas Company, we enclose herewith 13 copies of Chattanooga Gas Company's response to exceptions made by the staff of the Tennessee Regulatory Authority in the course of its examination and ACA audit for the period ended June 30, 1998.

We believe the responses are self explanatory and will be dealt with by the company accordingly.

If there are further questions concerning this and if this is to be set on a docket for the Authority's public meeting, please advise.

Very truly yours,

SPEARS, MOORE, REBMAN & WILLIAMS


William L. Taylor, Jr.

WLT:jcb
Enclosures

May 6, 1999
Page 2

cc.: Mr. Harry Thompson, President
Chattanooga Gas Company
6125 Preservation Drive
Chattanooga, TN 37416

Ms. Laura Foreman
Senior Financial Analyst
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

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FINDING #1:

Exception:

The Company had not refunded all of the pipeline refunds received during the year ended June 30, 1998.

Discussion:

As of June 30, 1998, the Company received \$1,124,086.58 in refunds from the pipelines during the year then ended but had included only \$1,051,985.33 in its calculation of the refund due the ratepayers.

Company Response:

The Company will include the remaining pipeline refunds in the next Purchase Gas Refund filing.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #2:

Exception:

The June 1998 injections shown on the Company's inventory schedule for account #145-710-8000 is incorrect.

Discussion:

The amount posted for injections for June 1998 on the inventory schedule for account #145-710-8000 was an estimate of \$48,392.77. The actual amount of injections for June 1998 was \$47,977.79.

Company Response:

The Company will adjust the inventory schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #3:

Exception:

The amount shown for April 1998 cash-out on the Company's inventory schedule for account #145-720-8000 was recorded incorrectly.

Discussion:

The April 1998 cash-out of \$168,143.08 was posted incorrectly as a debit to the inventory schedule for account #145-720-8000. The amount should have been posted to the inventory schedule as a credit.

Company Response:

The Company will adjust the inventory schedule and its general ledger accordingly. See also response to Finding #48.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #4:

Exception:

The Company failed to post the cost of vaporization to the inventory schedule.

Discussion:

The March 1998 vaporization cost of \$108,926.04 was not posted to LNG inventory schedule #145-900-8000 during the audit period.

Company Response:

The Company will adjust the inventory schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #5:

Exception:

The Company failed to post the June 1998 withdrawals from storage to the inventory schedule.

Discussion:

The June 1998 withdrawals from storage in the amount of \$330.31 was not posted to Inventory Schedule #145-720-8000 which was provided to the Authority with the ACA audit.

Company Response:

The Company will adjust the inventory schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #6:

Exception:

The Company failed to issue a credit to an industrial customer for a billing error.

Discussion:

In response to a data request regarding the Company's calculation of margin loss for September 1997, the Company stated it had incorrectly invoiced a customer. According to the Staff's calculations, the customer is due a credit of \$1,287. When asked to provide a copy of the credit invoice, the Company acknowledged that a credit has not been issued.

Company Response:

The Company will provide a credit to the customer in May's billing cycle.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #7:

Exception:

The Staff calculated an under-recovery of \$11,452.16 in the July 1997 margin loss.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in July 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." Based on the revised schedule, the total margin loss allowed to be recovered by the Company is \$68,792.45 rather than the \$57,340.29 which was included in the Company's ACA filing.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #8:

Exception:

The Staff calculated an over-recovery of \$172.14 in the July 1997 commodity cost of gas used by the Company.

Discussion:

The Company used incorrect volumes to compute the commodity cost of gas used by the Company during the month of July 1997.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #9:

Exception:

The Staff calculated an over-recovery of \$74.55 in the July 1997 demand cost of gas used by the Company.

Discussion:

The Company used incorrect volumes to compute the demand cost of gas used by the Company during the month of July 1997.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #10:

Exception:

*The Staff calculated an **under-recovery** of \$197.57 in the Company's July 1997 commodity interest accrual.*

Discussion:

The Company failed to include the margin loss for the month of July 1997 in its computation of the commodity interest accrual for the month.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #11:

Exception:

*The Staff calculated an **under-recovery** of \$671.44 in the Company's July 1997 commodity interest accrual.*

Discussion:

The Company used an incorrect interest rate to calculate the commodity interest accrual for July 1997. An interest rate of 8.25% was used by the Company instead of the correct rate of 8.43%.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #12:

Exception:

The Staff calculated an over-recovery of \$254.28 in the Company's July 1997 demand interest accrual.

Discussion:

The Company used an incorrect interest rate to calculate the demand interest accrual for July 1997. An interest rate of 8.25% was used by the Company instead of the correct rate of 8.43%.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #13:

Exception:

The Staff calculated an over-recovery of \$29.45 in the July 1997 commodity gas purchases.

Discussion:

The Company recorded \$108,616.39 as the total cost of gas purchased from Other Suppliers for the month of July 1997. The correct total should have been \$108,586.94.

Company Response:

The Company will adjust the total cost of gas purchased from Other Suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #14:

Exception:

The Staff calculated an over-recovery of \$1,269,540.34 in the storage injections for August 1997.

Discussion:

The amount the Company injects into storage each month is treated as a reduction in the purchased gas costs. As the gas is withdrawn from storage, the cost of the withdrawals is added back to the purchased gas costs. Rather than crediting the ACA filing with the amount of gas injected into storage for August, the Company added the total of storage injections to the cost of gas thereby overstating the ending balance in the commodity cost of gas purchased for the month by \$1,269,540.34.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #15:

Exception:

The Staff calculated an under-recovery of \$21.49 in the Company's August 1997 commodity interest accrual.

Discussion:

The Company failed to include the margin loss for the month of August 1997 in its computation of the commodity interest accrual for the month.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #16:

Exception:

The Staff calculated an under-recovery of \$49.66 in the August 1997 commodity cost of gas.

Discussion:

The Company used September 1997 rates to compute the commodity cost of gas which was used by the Company during the month of August 1997.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #17:

Exception:

The Staff calculated an over-recovery of \$9.64 in the August 1997 demand cost of gas.

Discussion:

The Company used September 1997 rates to compute the demand cost of gas which was used by the Company during the month of August 1997.

Company Response:

The Company will adjust the demand cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #18:

Exception:

The Staff calculated an under-recovery of \$24,345.48 in the commodity recoveries.

Discussion:

The Company applied September 1997 rates to August 1997 volumes to compute the total actual billings for August.

Company Response:

The Company agrees that it applied the incorrect rates, however, the Company calculates an under-recovery of \$37,615.81. The Company will adjust the total actual commodity billings on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #19:

Exception:

The Staff calculated an under-recovery of \$1,280.55 in margin loss August 1997.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in August 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." The Company's revised schedule reduced the margin loss allowed to be recovered by the Company from \$5990.52 to \$5449.06. Upon the Staff's review of the revised schedule it was noted that the Company failed to include the margin loss incurred from the sale to a customer in the total margin loss. This adjustment increased the margin loss allowed to be recovered by the Company to \$7,271.07.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #20:

Exception:

The Staff calculated an over-recovery of \$2,944.00 in the August 1997 demand recoveries.

Discussion:

The Company applied September 1997 rates to August 1997 volumes to compute the total actual demand billings for August.

Company Response:

The Company will adjust the total actual demand billings on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #21:

Exception:

*The Staff calculated an **under-recovery** of \$95.64 in the Company's September 1997 commodity interest accrual.*

Discussion:

The Company failed to include the margin loss for the month of September 1997 in its computation of the commodity interest accrual for the month.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #22:

Exception:

The Staff calculated an over-recovery of \$9,077.24 in the margin loss for the month of September 1997.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in September 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." The revised schedule reduced the monthly margin loss allowed to be recovered by the Company from \$27,197.33 to \$18,221.84. Upon the Staff's review of the revised schedule, it was noted that the Company had used August rates to compute the September margin loss on the sale to Rock Tenn Co. which further reduced the allowed margin loss for September by \$101.75. Therefore, the correct allowed margin loss for September 1997 is \$18,120.09.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #23:

Exception:

The Staff calculated an over-recovery of \$2,061.00 in the September 1997 commodity cost of gas.

Discussion:

The Company included incorrect amounts in the total cost of gas paid to other suppliers for the month of September 1997. Invoices from three suppliers were posted incorrectly.

Company Response:

The Company will adjust the total cost of gas paid to Other Suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #24:

Exception:

The Staff calculated an under-recovery of \$73.96 in the Company's October 1997 commodity interest accrual.

Discussion:

The Company failed to include the margin loss for October 1997 in its computation of the commodity interest accrual for the month.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #25:

Exception:

The Staff calculated an over-recovery of \$677,984.00 in the October 1997 commodity recoveries.

Discussion:

The Company posted demand recoveries of \$489,660 as both the commodity and demand recoveries for October's unbilled volumes. The correct commodity amount for October's unbilled volumes is \$1,167,644.

Company Response:

The Company will adjust the commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #26:

Exception:

*The Staff calculated an **under-recovery** of \$5,441.14 in the October 1997 commodity cost of gas.*

Discussion:

The Company erroneously included a cashout amount of \$206.36 and excluded the cancellation of a cashout in the amount of \$5,647.50 when computing total cost of gas purchased from other suppliers during the month of October 1997.

Company Response:

The Company will adjust the total cost of gas purchased from Other Suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #27:

Exception:

The Staff calculated an over-recovery of \$33,952.82 in the October 1997 commodity cost of gas.

Discussion:

The total paid for October 1997 to Southern Natural Gas was overstated by \$33,952.82. This was due to the failure to include a cashout injection credit of \$42,551.80, the inclusion in error of a prior month imbalance adjustment of \$689.52, and the incorrect posting of a cashout adjustment in the amount of \$4,644.23.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #28:

Exception:

The Staff calculated an over-recovery of \$12,629.22 in the October 1997 margin loss.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in October 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." This revised schedule reduced October 1997 margin loss allowed to be recovered by the Company by \$11,393.33. Upon the Staff's review of the revised schedule it was noted that incorrect volumes had been utilized in the computation of the margin loss. This further reduced the October 1997 margin loss allowed to be recovered by the Company by \$1,235.89.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #29:

Exception:

The Staff calculated an under -recovery of \$111,140.00 in the November 1997 demand recoveries.

Discussion:

The Company incorrectly calculated the adjustment necessary to correct the rates the Company initially used in computing the actual demand billings for November 1997.

Company Response:

The Company made an adjustment for \$111,140.00 in November 1997. The details of this correction are provided in response to Question #36 of the 12/31/98 Data Requests.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #30:

Exception:

*The Staff calculated an **under -recovery** of \$8.35 in the November 1997 demand cost of gas.*

Discussion:

The Company used December 1997 rates to compute the demand cost of gas used by the Company in November 1997.

Company Response:

The Company will adjust the demand cost of gas used on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #31:

Exception:

*The Staff calculated an **under -recovery** of \$214.16 in the November 1997 commodity cost of gas.*

Discussion:

The Company used December 1997 rates to compute the commodity cost of gas used by the Company in November 1997.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #32:

Exception:

*The Staff calculated an **under -recovery** of \$153,274.00 in the commodity recoveries for November 1997.*

Discussion:

The Company used December 1997 rates to compute the November 1997 current month unbilled commodity recoveries.

Company Response:

The Company will adjust the unbilled commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #33:

Exception:

The Staff calculated an over -recovery of \$4,783.00 in the demand recoveries for November 1997.

Discussion:

The Company used December 1997 rates to compute the November 1997 current month unbilled demand recoveries.

Company Response:

The Company will adjust the unbilled demand recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #34:

Exception:

*The Staff calculated an **under -recovery** of \$677,984.00 in the November 1997 commodity recoveries.*

Discussion:

As cited in Finding #25, the Company recorded the demand amount for the current month as the unbilled commodity recoveries. Since the actual billings recorded each month include the prior month unbilled recoveries, the Company must reverse the prior month unbilled amount to prevent the overstatement of recoveries. Therefore, due to the correction of the October error in unbilled recoveries, the November reversal also needs to be corrected.

Company Response:

The Company will adjust the unbilled commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #35:

Exception:

*The Staff calculated an **under -recovery** of \$10,000.00 in the November 1997 commodity cost of gas.*

Discussion:

The total cost of gas purchased from other suppliers during November 1997 was understated by \$10,000.00.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #36:

Exception:

The Staff calculated an over -recovery of \$17,393.25 in the margin loss for November 1997.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in November 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." This revised schedule reduced the margin loss allowed to be recovered by the Company by \$14,735.06. Upon the review of the revised schedule, it was noted that incorrect volumes had been used which, when corrected, further reduced the recoverable margin loss by an additional \$2,658.19.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #37:

Exception:

The Staff calculated an under -recovery of \$7,999.74 in the December 1997 commodity cost of gas.

Discussion:

The Company understated the amounts paid to three suppliers when calculating the total December 1997 cost of gas purchased from other suppliers.

Company Response:

The Company will adjust the cost of gas purchased from other suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #38:

Exception:

The Staff calculated an over -recovery of \$12,377.14 in the December 1997 commodity cost of gas.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in December 1997, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." This revision reduced the margin loss allowed to be recovered by the Company by \$3,624.65. Upon review of the revised schedule by the Staff, it was noted that due to incorrect volumes being utilized in the calculation, the recoverable margin loss should be further reduced by \$8,752.49.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #39:

Exception:

The Staff calculated an over -recovery of \$153,274.00 in the December 1997 commodity recoveries.

Discussion:

As cited in Finding #32, the Company used December 1997 rates to compute the November 1997 current month unbilled commodity recoveries. As the actual billings recorded each month include the prior month unbilled recoveries, it is necessary that the prior month unbilled recoveries be reversed each month to prevent overstating the monthly recoveries. Therefore, since the November unbilled commodity recoveries were recorded incorrectly by the Company, the reversal in the subsequent month must also be corrected.

Company Response:

The Company will adjust the unbilled commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #40:

Exception:

*The Staff calculated an **under-recovery** of \$4,783.00 in the December 1997 demand recoveries.*

Discussion:

As cited in Finding #33, the Company used December 1997 rates to compute the November 1997 current month unbilled demand recoveries. As the actual billings recorded each month include the prior month unbilled recoveries, it is necessary that the prior month unbilled recoveries be reversed each month to prevent overstating the monthly recoveries. Therefore, since the November unbilled demand recoveries were recorded incorrectly by the Company, the reversal in the subsequent month must also be corrected.

Company Response:

The Company will adjust the demand recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #41:

Exception:

The Staff calculated an over-recovery of \$16,463.15 in the margin loss for January 1998.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in January 1998, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." Based on the revised schedule, the total margin loss allowed to be recovered by the Company is \$7,488.26 rather than the \$23,951.41 which was included in the Company's ACA filing.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #42:

Exception:

The Staff calculated an over-recovery of \$749,766.00 in the February 1998 commodity recoveries.

Discussion:

The Company used March 1998 rates to calculate the unbilled commodity recoveries for February 1998.

Company Response:

The Company will adjust the unbilled commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #43:

Exception:

The Staff calculated an over-recovery of \$45,616.00 in the February 1998 demand recoveries.

Discussion:

The Company used March 1998 rates to calculate the unbilled demand recoveries for February 1998.

Company Response:

The Company will adjust the unbilled demand recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #44:

Exception:

The Staff calculated an over-recovery of \$6,856.04 in the February 1998 commodity cost of gas.

Discussion:

The total cost of gas paid to other suppliers in February 1998 was overstated due to incorrect invoice amounts being recorded by the Company.

Company Response:

The Company will adjust the total cost of gas paid to other suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #45:

Exception:

The Staff calculated an under-recovery of \$749,766.00 in the March 1998 commodity recoveries.

Discussion:

As cited in Finding #42, the Company incorrectly used March 1998 rates to calculate the unbilled commodity recoveries for February 1998. As the prior month unbilled recoveries are included in the current month's actual billings, it is necessary for the Company to reverse the prior month unbilled accrual to avoid overstating total recoveries. Therefore, since the prior month unbilled was recorded incorrectly by the Company, the subsequent reversal must also be corrected.

Company Response:

The Company will adjust the commodity recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #46:

Exception:

The Staff calculated an over-recovery of \$642,187.00 in the March 1998 demand recoveries.

Discussion:

Each month it is necessary for the Company to reverse the prior month unbilled demand recoveries since the actual billings for the month include the prior month unbilled recoveries. The amount reversed by the Company in March 1998 for the February 1998 unbilled demand recoveries was correct.

Company Response:

The Company will adjust the demand recoveries on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #47:

Exception:

*The Staff calculated an **under-recovery** of \$11,389.75 in the March 1998 commodity cost of gas.*

Discussion:

The total recorded by the Company as the amount paid to other suppliers for gas purchased in March 1998 was understated by \$11,389.75 due to two invoices being excluded and one invoice being recorded incorrectly.

Company Response:

The Company will adjust the total cost of gas paid to other suppliers on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #48:

Exception:

The Staff calculated an under-recovery of \$336,286.16 in the April 1998 commodity cost of gas.

Discussion:

The Company reduced the storage withdrawals for April 1998 for a prior month imbalance adjustment should have been added to the total storage withdrawals.

Company Response:

The Company will adjust the commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #49:

Exception:

The Staff calculated an over-recovery of \$10,997.98 in margin loss for April 1998.

Discussion:

In response to the Staff's request for copies of the customer invoices to substantiate the margin loss incurred in April 1998, the Company revised its schedule entitled "Calculation of Loss in Gross Profit from Sales using Special Service Rate Schedule SS-1." The revised schedule reduced the margin loss allowed to be recovered by the Company from \$19,248.12 to \$9,299.61. Based on the Staff's review of the revised schedule, however, it was noted that the Company used an incorrect negotiated rate for 23,321.15 mcf. This error further reduced the total margin loss allowed to be recovered by the Company by \$1,049.47 to \$8,250.14.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #50:

Exception:

*The Staff calculated an **under-recovery** of \$1,692.91 in the margin loss for May 1998.*

Discussion:

Incorrect negotiated rates were applied by the Company in its computation of the May 1998 margin loss.

Company Response:

The Company will adjust the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #51:

Exception:

The Staff calculated an over-recovery of \$56,534.24 in the May 1998 commodity cost of gas.

Discussion:

At the conclusion of the ACA audit for the year ended June 30, 1997, the Company was instructed to record six adjustments in the current audit period to the commodity portion of the ACA. The net effect of the six adjustments was a credit of \$39,904.45. The Company posted eleven adjustments which netted to a debit of \$16,629.79, thereby overstating the commodity portion of the ACA by \$56,534.24.

Company Response:

The Company will adjust commodity cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #52:

Exception:

*The Staff calculated an **under-recovery** of \$5,576.69 in the May 1998 demand cost of gas.*

Discussion:

At the conclusion of the prior ACA audit for the year ended June 30, 1997, the Company was instructed to record two adjustments in the current audit period to the demand portion of the ACA. The net effect of the two adjustments was a credit of \$586.54. The Company posted six adjustments which netted a credit of \$6,163.23, thereby understating the demand portion of the ACA by \$5,576.69.

Company Response:

The Company will adjust the demand cost of gas on the ACA schedule and its general ledger accordingly.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #53:

Exception:

The Staff calculated an under-recovery of \$36,221.89 in the June 1998 commodity cost of gas.

Discussion:

At the conclusion of the prior ACA audit for the year ended June 30, 1997, the Company was instructed to record certain adjustments to the Company's general ledger in order to reconcile the general ledger with the ACA audit. Two of these adjustments were posted by the Company to the ACA in error.

Company Response:

The Company will adjust the ACA.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #54:

Exception:

The Staff calculated an over-recovery of \$103,076.22 in the commodity interest accrual.

Discussion:

As a result of the above findings related to the commodity portion of the ACA, the commodity interest accrual has been overstated by \$103,076.22.

Company Response:

The Company calculates the under-recovery at \$104,096.22 based on its responses to Finding #18.

Chattanooga Gas Company
ACA Audit: 7/1/97-6/30/98

FINDING #55:

Exception:

The Staff calculated an over-recovery of \$11,726.01 in the demand interest accrual.

Discussion:

As a result of the above findings related to the demand portion of the ACA, the demand interest accrual has been overstated by \$11,726.01.

Company Response:

The Company calculates the under-recovery at \$17,770.01 based on its responses to Finding #29.